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Latin America

REGIONAL AND POLITICAL ANALYSIS

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NOTE: The LATIN AMERICA REGIONAL and POLITICAL ANALYSIS will be published once a week on Thursday beginning with this edition.

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This publication is prepared for regional specialists in the Washington community by the Latin America Division, Office of Regional and Political Analysis, with occasional contributions from other offices within the Directorate of Intelligence and from other agencies within the Intelligence Community. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Peru-USSR: Growing Problems with Soviet Weapons

The Peruvian army is having difficulty maintaining and supplying its Soviet-made weapons and equipment. Lack of spare parts, inadequate training, poor maintenance by Peruvian personnel, and problems caused by climate and topography have left some items unusable. It is unlikely that Peruvian personnel can effectively use all their new equipment, now or in the near future.

1,5

Some Peruvian military leaders blame Soviet support and training and suspect that the Soviets may want to keep the Peruvian military dependent on them. The Soviets have sent some advisers, and more are expected. Soviet training of Peruvian personnel has improved in the past two years but will probably not keep pace with Peru's acquisition of more complex missiles and aircraft.

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Scope of the Problem

Peru probably now has 300 T-55 medium tanks; the T-55 is the frontline armor weapon of Peruvian ground units. In April, some 70 of these tanks were inoperable because of a combination of problems:

--Major maintenance is required once a month.

--Engines cannot operate at high altitudes.

--Drivers rapidly become fatigued because of the difficult steering mechanism and the manual transmission.

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--Clutches are weak.

--Fuel expansion caps frequently leak fumes into the crew compartment.

--The tracks have a limited road life, further shortened by rocky terrain and sand.

--The Soviet supply of spare parts is inadequate.

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The Soviet KRAZ 225 prime mover purchased to tow the T-55 tanks apparently has proven unsatisfactory because it lacks power in high altitudes and on steep inclines. The Soviets were unable to solve these problems by modification and, as a result, Peru will have to obtain a new prime mover. The Peruvians apparently will use the KRAZ 225 for the Soviet ZSU-23-4, a 23-mm. self-propelled antiaircraft gun, and for the US 155-mm. self-propelled howitzer; both weigh less than the T-55.

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Soviet trucks have generally performed adequately, although they have had maintenance problems stemming from transmission deficiencies, especially in flat bed rigs.

5

A number of the ZSU-23-4 self-propelled guns are out of service because there are no spare parts; the Soviets are supposed to modify the system to make the weapon and radar power supply independent of external sources. Some reports indicate that a major Peruvian objection to the ZSU-23-4 is that it lacks equipment that can distinguish whether a potential target is friend or foe. Other reports suggest that this problem has been solved.

5

The Soviet MI-8 helicopter has been the most disappointing acquisition for the Peruvian military in terms of maintenance. Last summer, the in-commission rate for these helicopters was only 30 percent, and by January 1977 it had dropped to 20 percent. The Peruvians believe the main problems are a shortage of spare parts and Soviet failure, or reluctance, to teach fundamental maintenance procedures.

2,5

Peruvian maintenance has improved in the past two years but has not kept pace with the amount or sophistication of the Soviet equipment being acquired. Soviet advisers believe equipment is abused and destroyed unnecessarily and that the Peruvians do not comprehend concepts such as preventive maintenance. Peruvian military leaders, however, charge that the USSR purposely delays replenishing spare parts, performs rather than teaches maintenance, and uses some instructors who do not speak Spanish.

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The Peruvian military expected some problems with the new Soviet equipment, especially with the T-55 tank and the MI-8 helicopter, but they are irritated by what they believe to be a Soviet failure to send them quality units and spare parts. They strongly question the Soviets' motives, arguing that the USSR could do better if it wished.

1, 5

Maintenance problems and performance failures of the Soviet-supplied equipment adversely affect Peru's military capabilities and will increasingly draw the attention of both Peruvian planners and Soviet advisers. Recent deliveries by the Soviets of spare parts and replacement units for the T-55 and other equipment and an increase in the number of Soviet technicians may represent Soviet attempts to rectify the problems.

1, 5

Soviet purchase terms are attractive to the Peruvians. Peruvian military leaders, confronted by economic constraints in the world arms market, see Soviet equipment as the only short-term choice.

5

Outlook

The reported delivery to Peru of surface-to-air missile systems and the SU-22 fighter-bomber will probably create additional maintenance problems. Peruvians are receiving extensive maintenance and operations training in the USSR, but the Soviets may have to send as many as 75 additional advisers and technicians to aid and train the Peruvians to maintain the new systems.

5

Some 80 Soviet military advisers are in Peru at present. The complexity of the systems, the usual lack of timely parts deliveries by the Soviets, and the poor Peruvian logistic system, however, suggest problems will continue despite increased numbers of Soviet advisers.

5

These difficulties adversely affect the operational ability of Peru's land forces. Recent reports indicate that Peru's logistic system could not support a two-front conflict (against Chile and Ecuador) for more than two or three days. This would hinder realization of Peru's reported strategic contingency planning, which calls for two-front operations lasting two weeks or longer.

5

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T-55 tank on parade in Peru

5 The cost of such a conflict, moreover, would most probably be too high for the Peruvian economy, which suffers from inflation, lack of investment capital, and a large balance-of-payments deficit. Although these factors argue strongly against offensive action by Peru against its neighbors, they could be offset by the belief of many Peruvian officers that conflict is inevitable.

5 Peru's neighbors suffer some of the same problems. Ecuador and Bolivia have few ground units with modern equipment, and the overwhelming amount of equipment possessed by Peru would enable it to keep more weaponry in the field.

5 Chile, although it has fewer ground weapons than Peru, has a much stronger defensive capability than Ecuador or Bolivia. Chile also has numerous tanks and support vehicles out of service for maintenance; only half of Chile's 50 US-made M-41 tanks reportedly are operational at any one time, and its 21 M-24 tanks are still not sufficiently refurbished to enable them to perform well against Peru's T-55s.

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Venezuela: Time Running Out

Unless Venezuelan officials and representatives of
the ex-concessionaires achieve an early breakthrough in
current negotiations aimed at settling major problems
2 left over from the January 1976 nationalization of the
petroleum industry, there is little chance that final
agreements can be reached and implemented before the
formal start of the presidential campaign in April 1978.

Progress is slow and major obstacles remain on the
three outstanding issues yet to be resolved--disposition
of the billion dollar guaranty fund and two separate
claims for back taxes. Central to the negotiations is
the apportionment of the compensation bonds being held
by Venezuela in the guaranty fund. The fund was set up
5 in 1971 to ensure that the petroleum companies properly
maintained their oil facilities before they were trans-
ferred to government hands. Soon after nationalization,
government officials promised that this issue would be
settled quickly, but little headway was made in 1976 and
about half of the compensation promised to the ex-con-
cessionaires is still held by the government in the fund.
President Perez and other government officials now say
that they intend to settle these issues by the end of
1977.

Although some progress has occurred in recent months,
the government appears unrealistically optimistic. Evi-
dence suggests that these issues may be one of the major
2.5 problems faced by the new administration when it takes
office in 1979.

Guaranty Fund

Field evaluations of production equipment, pipelines,
and refineries have now been completed, and the resident
representatives of the ex-concessionaires are reviewing
5 the evaluations point by point with Martin Morales, chief
of the Reversion Office of the Ministry of Energy and

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Mines. Company officials describe their relations with
the government team as good and say that Morales is in-
creasingly willing to listen to their refutation of spe-
cific claims made by the government field inspectors.
Some companies reportedly have already signed preliminary
agreements with Morales' office on the amount of deduc-
tions from the guaranty fund, and most expect to sign
such agreements over the next month or so. The agree-
5 ments must then, however, be brought before a committee
composed of ministry officials and representatives of
the ex-concessionaires and Petroven, the state holding
company. This committee will review the preliminary
agreements and make recommendations to the minister of
energy and mines, Valentin Hernandez, who will decide the
final amount of the deduction. (He could even increase
the claims against the oil company.) Once agreement is
reached, payments from the guaranty fund will still be
held up until the two separate tax claims are resolved.

Tax Claims

The back taxes claimed by the Ministry of Finance
originate from deductions taken by the companies on their
income tax returns for 1975 and previous years. In early
1976, a separate tax claim was advanced by the Comptrol-
ler General's office totaling nearly $500 million. The
office of the Comptroller is a subordinate agency of the
Congress, entrusted with the control, auditing, and ad-
ministration of the nation's revenues, expenditures and
assets. In asserting its claims, the Comptroller General
1, 2, 5 acted on his own. His sole supporters were the Comptrol-
ler's office itself and leftist members of congress. Al-
though Ministry of Energy and Mines officials assert that
these claims have little or no legal basis, the ex-con-
cessionaires believe that final adjudication can come
only from the Supreme Court, a procedure that will take
months. It is also generally recognized that a foreign
oil company has yet to win a significant tax case in a
Venezuelan court.

Legislative Obstacles

Once these roadblocks have been passed, a more for-
midable political challenge faces the companies and the
government when details of the agreements are presented
1, 2 to the Venezuelan Congress for debate. Although the

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governing Democratic Action Party has majority control in both legislative chambers, it will not rush the agreements through Congress without adequate debate. And time is not on the government's side. The present congressional session ends in little more than a month, and the
1, 3 October-December session is traditionally set aside for discussion and approval of the government's budget. Next year, when elections are scheduled, Congress meets only once, in March, and any important legislation it passes will be of a nonpartisan nature. Time has just about run out for any definitive settlement with the ex-concessionaires until after the elections in December.

Outlook

If Venezuela is to be assured of long-term participation of foreign oil companies in areas where their services are most needed--heavy oil and off-shore oil--a basic change in the Venezuelan mind-set toward the foreign oil companies will be necessary.

Although the current course of negotiations with the government is unsettling to the former concessionaires, it has apparently not yet affected the running of the nationalized petroleum industry. The former owners are still helping to operate the industry under technical service and marketing contracts, and there is no indication that the major oil companies are so dissatisfied with their relations with the Venezuelan government that they will not renew these service contracts. The frustrations involved in dealings with the Venezuelan bureaucracy may, however, have a more negative effect when future relationships are discussed.

Neither the ex-concessionaires nor other potential foreign investors will be reassured by the Venezuelan predisposition to mix oil and politics. In recent speeches in two major oil-producing areas, Luis Pinerua
5 Ordaz, the secretary general of the Democratic Action Party and front-runner for the party presidential nomination, promised that his administration would carry forward the nationalization of the oil industry by "Venezuelanizing" the foreign-owned service companies working for the industry. Pinerua was clearly referring to the Venezuelan subsidaries of the companies, largely US,

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which provide exploration, drilling, testing, and other specialized services under contract to the oil industry worldwide. While Pinerua's concept of "Venezuelanization" was not further defined, these service-companies can be expected to react to any serious threat of nationalization by cutting back their activities in Venezuela. Should they take this action, the extensive exploration and development research program planned by Petroven for the Orinoco Tar Belt, as well as current operations, would be severely damaged. 25X1

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Ecuador Reaches Settlement with Gulf Oil

Ecuador has settled a long-standing dispute with
1 Gulf Oil Company by agreeing to purchase Gulf's 37.5-percent interest in the Texaco-Gulf Ecuadorean oil consor-
2 tium. Gulf received an initial payment of $82 million Friday and expects to receive an additional $35 million upon completion of an audit of the company's holdings.

The dispute began early last year when Gulf withheld foreign exchange deposits on export sales in an effort to force Ecuador to modify policies that had reduced company
2 profit margins. Gulf paid the overdue deposits in September, averting confiscation of its assets by the Ecuadorean government.

The purchase gives the Ecuadorean State Petroleum
1 Corporation the controlling interest in the consortium, with 62.5 percent of the shares. Texaco will probably continue to handle the marketing of Ecuadorean oil and
2 retains a 37.5-percent interest. The consortium produces nearly all of Ecuador's oil. 25X1

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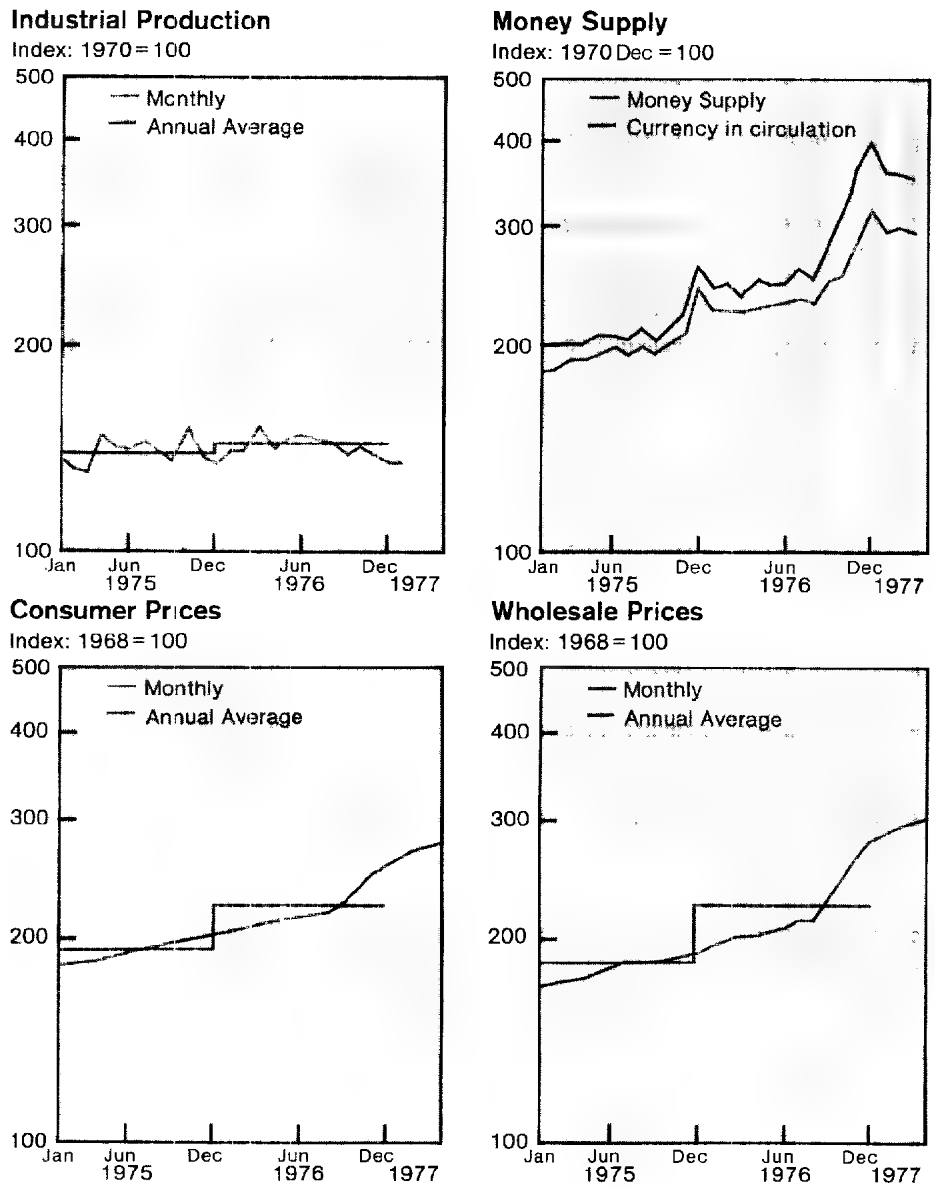
Selected Economic Indicators



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Mexico: Financial Stabilization Measures More Than Meet IMF Targets

Mexico has more than met the first quarter fiscal and monetary targets set under its stabilization agreement with the International Monetary Fund. Failure to meet these targets would have restricted Mexico's drawings on a $600 million, three-year Extended Fund Facility and would have reduced its ability to obtain foreign commercial credit. Meeting the targets has required severe fiscal austerity measures. Consumer demand and private investment remain severely depressed, and inflation, though falling, is still currently running at a 20 percent annual rate. Although the extreme austerity policies of the first quarter may be gradually relaxed to spur private investment, we believe the IMF targets will still be generally adhered to. Mexico City is likely, however, to try to renegotiate restrictions on public foreign borrowing under the Extended Fund Facility. President Lopez Portillo apparently believes, as we do, that efforts to develop Mexico's vast oil reserves are being hindered by the IMF agreement.

Economic Policy

So far, the Lopez Portillo administration seems to have placed financial stabilization and adherence to the IMF agreement well ahead of economic expansion. Mexico City hopes that an increase in private demand and in private investment will provide the impetus for recovery from last year's sharp economic slowdown. Whether or not private demand revives, the present extreme austerity measures will probably be relaxed somewhat later in the year. We believe, however, Lopez Portillo will generally adhere to the IMF targets.

To help chart his economic course, Lopez Portillo has created an economic cabinet under his personal chairmanship. Within the government economic establishment, a number of loosely organized groups are vying for influence. These include:

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--The Cambridge group, headed by Carlos Tello, secretary of planning and budget, which seeks increased government spending.

--The Moctezuma group, headed by Julio Moctezuma Cid, secretary of finance, which favors anti-inflationary measures.

--La Asesoria, a small group, headed by Jose Antonio Ugarte, with which Lopez Portillo's son apparently works closely.

Lopez Portillo has moved deliberately through the prolific and conflicting advice proffered by these groups and others, seeking to avoid the rash implementation of ill-conceived policies characteristic of the previous Echeverria administration. Thus far, Rafael Izquierdo, advisor to the president, Jose Ugarte, and others calling for severe anti-inflationary measures have been most influential. We cannot be sure they will remain so,

Fiscal Policy

Despite politically necessary public statements that government spending is running at budgeted levels, the new president has in fact drastically pruned public outlays. From January to March, the federal government's deficit was reportedly only 3 billion pesos, compared with 8 billion a year earlier. No data are available on the remainder of the public sector, but this deficit is generally slightly less than that of the federal government. Accordingly, we estimate that the total public sector deficit was about 6 billion pesos, far below the IMF target of 25 billion pesos.

The first quarter cutback reflects far more than the reduced spending normally associated with a new administration or with the normal seasonal downturn. Clearly, the "transition budget" drafted mainly by the Echeverria administration has been greatly slashed. [redacted] 25X1
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Spending curtailment has also been aided by:

--The centralization of the budgetary process under a new Secretariat of Programming and Budgeting.

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--A new law giving the treasury authority to control borrowing by government units.

--Reforms aimed at achieving a greater degree of cohesion between agencies and ministries in formulating and implementing policy.

Monetary Policy

The first quarter drop in borrowing requirements permitted by the reduced deficit has allowed the administration to more than meet the IMF money supply goals without further curtailment of credit to the private sector. The IMF agreement limits the growth of currency in circulation to the change in foreign reserves. Although foreign reserves increased by $205 million from January to mid-March, currency in circulation by the end of March had dropped 12 percent from the December level, far greater than the normal seasonal decline.

The tight credit conditions that faced the private sector last year have eased slightly, the inflation rate is down, and an estimated $1 billion being hoarded in the form of dollars has been returned to the banking system to bolster time deposits. The government hopes to further increase credit availability through the following measures:

--Bank reserve requirements on new deposits have been reduced from an average rate of 50 percent to 39.5 percent, while maintaining selective credit policies.

--The government has increased interest rates on peso deposits and made them more flexible, and market oriented.

--To encourage switching to peso deposits, interest rates paid on dollar deposits have been lowered to one percentage point above London Eurodollar rates.

--To attract increased savings and the repatriation of capital, the government has floated a trial two-billion-peso "petrobond" offering, and more are planned; these bonds have maturity values directly linked to world oil prices and a guaranteed minimum annual tax-free interest rate of 7 percent.

Inflation

Although first quarter fiscal and monetary policies have reduced demand pressures, price rises to offset higher costs continue. The rate of increase in the consumer price index has steadily declined from 3.2 percent in January to 1.5 percent in April. The wholesale price index, however, after gaining only 1.9 percent in March, jumped 2.9 percent in April.

Industry is pushing for higher prices for controlled items. Lopez Portillo is reportedly beginning to feel that the severe price controls on basic food products are unsustainable. Termination of the controls, however, could meet labor opposition and result in new wage demands. Holding wage demands to a 10 percent ceiling has been a key factor in the government's anti-inflation efforts. In these circumstances, the government can be expected to try to limit price increases to the minimum necessary to discourage production cutbacks.

Economic Growth

The sharp drops in real GDP and industrial production that followed the September float of the peso probably have been stemmed; depressed demand is keeping output stagnant. In January, industrial production was 3.6 percent below a year earlier and slightly below the December level, contrary to the usual seasonal increase. Lopez Portillo had hoped that a revival of consumer demand and private investment would partially offset the slowdown in public spending. If the government maintains tight fiscal and monetary policies, however, 1977 will likely be a year of zero or negative economic growth. The matching of last year's 2 percent increase in GDP, far below the rate necessary to absorb all the new entrants to the labor force, is probably the best that can be hoped for.

Lopez Portillo is reportedly discouraged by the failure of domestic and foreign investment to pick up. The President has tasked his advisers to come up with recommendations on ways to encourage investment and has sought to stimulate business by abolishing the highly unpopular excess profits tax.

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While Lopez Portillo has cleared away much of the bad feeling between the government and the private sector, business is not likely to respond with large investments in the next few months. Companies are financially strapped by the large increase in the peso cost of servicing their dollar debt. Because of excess capacity and a poor profit year in 1976, investment is unlikely to respond quickly even with the modest credit expansion and increased business confidence.

Balance of Payments

Tight fiscal and monetary policies have helped bring a dramatic improvement in the balance of payments. In March, Mexico recorded its first monthly trade surplus in

Mexico: Balance of Payments

Million US $

			1976				1977
	1975	1976	1st Qtr	2d Qtr	3d Qtr	4th Qtr	1st Qtr
Exports (f.o.b.)	2,858.6	3,297.8	781.2	879.7	673.7	963.2	1,063.2
Imports (c.i.f.)	6,580.2	6,029.6	1,433.4	1,656.8	1,497.2	1,442.2	1,132.9
Trade balance	**-3,721.6**	**-2,731.8**	**-652.2**	**-777.1**	**-823.5**	**-479.0**	**-69.7**
Net services[1]	-47.3	-291.9	-13.6	-110.4	-127.3	-40.6	-230.3
Current account balance	**-3,768.9**	**-3,023.7**	**-665.8**	**-887.5**	**-950.8**	**-519.6**	**-300**
Net errors and omissions and short-term capital	-406.0	-2,199.4[2]	-238.2	-163.0	-718.2	-715.0	200
Capital account balance	**4,339.9**	**4,889.9**[2]	**858.5**	**1,026.5**	**1,015.3**	**1,624.5**	**300**
Change in reserves	**165.1**	**-333.1**	**-45.4**	**-24.0**	**-653.6**	**389.9**	**200**

1. Including value added by border industries.
2. Data for quarters do not correspond to annual totals because foreign credit to companies with foreign investment is available only on an annual basis.

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28 years. Reportedly, the first-quarter trade deficit was about $70 million and the current-account deficit was $300 million, compared with $652 million and $666 million, respectively, during the first quarter of 1976. Imports reflecting the impact of the devaluation and economic stagnation and probably the end of speculative accumulation, were down an estimated 21 percent; capital goods accounted for more than half of the drop. Exports were reportedly up 36 percent, led by coffee and petroleum sales. Net errors and omissions, which include short-term capital, showed a new inflow as capital flight was reversed. As a result, Mexico, with modest net foreign borrowing well below the IMF target, ended the quarter with an increase in reserves.

Lopez Portillo and key advisers apparently plan to rely on rapid development of petroleum exports to improve Mexico's balance-of-payments position. The President reportedly believes that Mexico can borrow against its future petroleum production to meet debt servicing requirements and to acquire financing to maintain federal spending levels. He believes, however, that efforts to increase oil production are being unduly restricted by the IMF agreement. He points out that the IMF wants Mexico to develop its energy resources while at the same time restricting access to foreign credit needed to finance it.

Although renegotiation of the IMF borrowing target may be advisable--the program did not foresee the surge in inflation following the floating of the peso or the obvious need for financing to develop Mexico's oil reserves--the IMF will be extremely reluctant to accept a change. The IMF probably fears that a drastic renegotiation of the targets in the Mexican stabilization program could cause a loss of confidence in the IMF's ability to impose conditions on other countries. Even though the agreement is becoming a political issue in the country, Mexican officials, while pushing for a renegotiation, probably will be forced to live with the agreement.

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Problems in Paradise

Economic difficulties in the Caribbean Community (CARICOM) are impeding the movement for regional cooperation and unity, despite the best efforts of some members, especially Trinidad and Tobago. Many of the economic problems are longstanding and have pitted the smaller, poorer members against the larger, more prosperous ones. There also are tensions among the larger members over political issues. The immediate causes of the problems are:

--The refusal by the smaller members to ratify a proposal to restrict the trade of non-Caribbean commodities within CARICOM.

--Separate decisions by three members faced with balance-of-payments problems to restrict further imports from other CARICOM members.

--The rumored resignation of the head of the CARICOM secretariat, a principal proponent of regional economic cooperation.

Established in 1973 as the successor to the Caribbean Free Trade Association (CARIFTA), CARICOM embraces three broad areas of cooperation:

--A modified common market with a high external tariff.

--A community treaty to harmonize economic policies, foster economic development, and aid members faced with balance-of-payments problems.

--Coordination of foreign policy issues.

The 12 member countries are classified as "more developed" (MDCs) and "less developed" (LDCs). Trinidad and Tobago, Barbados, Jamaica, and Guyana--known as the "big four"--make up the first group. The less developed countries

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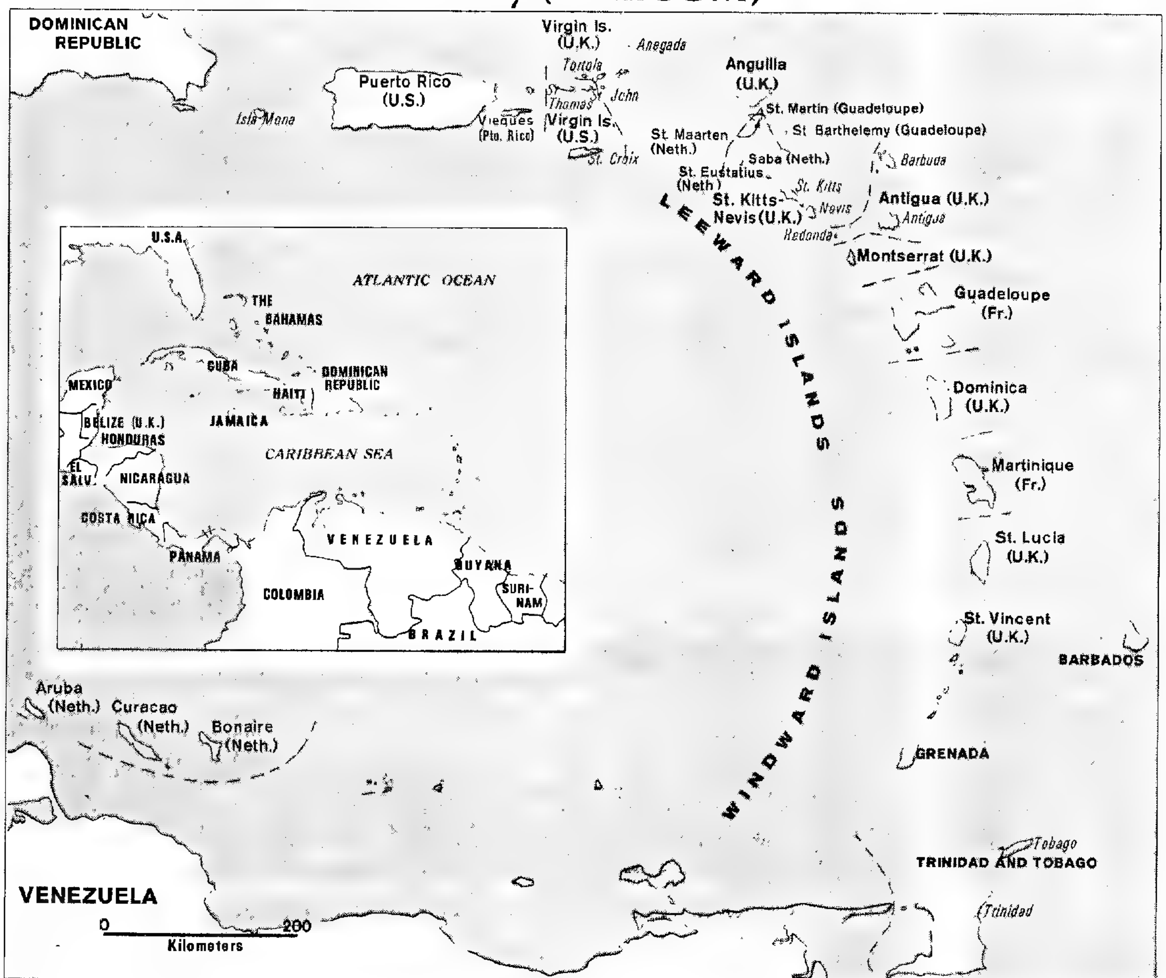
The Caribbean Community (CARICOM)



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include the eastern Caribbean islands of Antigua, Dominica, Grenada, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent, and the mainland entity of Belize.

1 One of the key issues facing CARICOM is whether "integrationist" views or planning for the economic development of individual countries will receive priority. The CARICOM secretariat and the MDCs have promoted the establishment of supplementary regional institutions such as the Caribbean Multinational Shipping Line and the Caribbean Food Corporation. These organizations were set up to achieve greater intraregional economic planning. Another regional institution, the Caribbean Development Bank (CDB)--originally established by CARIFTA in 1970--finances regional projects. Under the last two directors, however, the bank has tried to make it easier for the LDCs to obtain loans for individual economic development purposes.

2 The smaller countries' belief that the benefits of regional cooperation have been unequally distributed is a major source of contention between them and the larger countries. The eastern Caribbean mini-states--for the most part hard-pressed, economically unviable units--have resisted efforts to "harmonize" economic policies. The characteristics of these countries' deteriorating economies are rising population growth, lack of natural resources, declining tourist revenues, high fuel bills, inflation, and attendant social ills. In addition, they are running large trade deficits with the more prosperous countries. The LDCs believe flexible economic arrangements will aid their industrialization prospects, and they have blocked an attempt by the "big four" to restrict market access to CARICOM commodities.

3 At the recent CARICOM ministerial talks, the mini-states collectively argued that they were less concerned than the large countries about "refining" rules on regional integration. Speaking for the LDCs, Montserrat Chief Minister Austin Bramble said community priorities should be rearranged to make "actual industrial development" of the LDCs--particularly the location of new industries--the number one agenda item. He intimated that only MDC acceptance of this position would break the stalemate.

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The inability of the smaller countries to become self-sufficient through CARICOM has caused them to become more protective of their interests. They have resisted the adoption of a common framework to govern their relationship with non-CARICOM countries and have indicated a willingness to explore non-CARICOM sources of economic and technical assistance. Dominica and St. Lucia, for example, were offered technical assistance by Cuba; Antigua, after receiving economic assistance from Venezuela, supported the Venezuelan petition for CARICOM membership.

In addition, the smaller countries believe that subregional integration mechanisms--the Eastern Caribbean Common Market and Eastern Caribbean Currency Authority, both originally established by CARIFTA--better serve their needs. Some LDC leaders, for example, have suggested that transforming the currency authority into a development bank to serve the smaller countries would enhance investment prospects as well as lessen their dependence on loans from the CDB. Adoption of this suggestion would probably delay full integration of the LDCs into CARICOM.

Trinidad and Tobago Prime Minister Eric Williams' financial largesse has been crucial in holding the organization together in the face of disagreement over the issue of a community-wide foreign policy and the deteriorating economic conditions in the member countries. Williams has cooled off on his belief that Cuba should be included in the regional cooperative effort. This backtracking is partly due to Castro's rejection of Williams' view of the role of the remaining colonial powers and the US in the Caribbean.

Williams, on the other hand, opposes efforts by Jamaica and Guyana to formulate a community foreign policy which would reflect their domestic economic policies and which would partly support Cuba's foreign policy. He feels that regional interests would be best served if CARICOM took what amounts to a neutral position on issues that the community has very little influence on. In 1976 a CARICOM heads of state meeting broke up after Williams blocked a joint Jamaican-Guyanese effort to adopt a common position condemning alleged US

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"destabilization" of the region. He also refused to discuss extension of regional aid to Mozambique and to vote on joint recognition of Angola.

Williams' past financial assistance to protect CARICOM includes:

--A $20 million balance-of-payments support loan to Guyana and separate $25 million and $70 million loans to Jamaica. He also placed $10 million in reserve for Barbados.

--A purchase in 1974 of $15 million in bonds with the understanding that the funds would be used to increase lending activities in the Caribbean region.

--A $10 million contribution to a special CDB fund for loans to the CARICOM LDCs.

Williams has tried to use the loans to ward off Jamaican and Guyanese pressures on CARICOM foreign policy positions and to extract promises from Manley and Burnham to support the principles of the CARICOM treaty. However, efforts to unite the "big four" have not been successful. For instance, a CARICOM secretariat proposal for a regional aluminum smelter project that would integrate the "big four" economies by using Trinidad and Tobago's natural gas to process Jamaican and Guyanese bauxite into aluminum is in limbo because of a lack of funds.

Although CARICOM will survive--with the help of Williams' petroleum-based wealth--deep economic and political problems remain. [redacted] 25X1

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Guyana: A Special Case for the US?

In his most recent attempt to obtain economic assistance from the US, Guyana's Foreign Minister Fred Wills has suggested that the US, for economic assistance purposes, ought to consider the Caribbean as a special case apart from other less developed countries--essentially, an economic "Monroe Doctrine" area.

According to Wills, US cultural and economic dominance in the region means that the consumption patterns and attitudes of Caribbean, especially Guyanese, people are molded by the US and, as a consequence, Caribbean countries are less inclined to sacrifice than other less developed nations. Wills added that, although Guyana has a relatively high per capita income, it should be listed as a less developed country.

Wills' clear message is that the US has a responsibility to offer economic assistance to Guyana. He apparently feels that without outside assistance, his government will be forced to cut back on investment in development projects. He pointed out that the government could not afford the political costs of compelling its citizens to lower their expectations and standard of living.

Wills' remarks to the US charge are indicative of Guyana's disappointment that its expectations for financial assistance from the US have not yet materialized. Like the rulers of many other less developed countries, Guyana's leaders have a love-hate attitude toward the US. After several years of criticism of US policies, in recent months Guyana has blunted explicit criticisms of Washington in the expectation that financial assistance would be forthcoming.

Wills' comments reiterate Prime Minister Burnham's recent friendly statements about the US. They also serve as a reminder, however, that the Guyanese government will

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regard favorable US decisions on such items as transfer of resources, designation of Guyanese sugar as eligible for preferential access to the US market, and financial assistance for balance-of-payments support as the real indicators of Washington's attitude toward Guyana.

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